NOVEMBER/DECEMBER 2025

23PCM21 — STRATEGIC COST MANAGEMENT

Time : Three hours Maximum : 75 marks

SECTION A — (10 × 2 = 20 marks)

Answer ALL questions.

1. Write any two needs for SCM.

2. What are the important components of strategic cost management?

3. Write any two features of cost control.

4. Explain any two benefits of cost control management.

5. Mention the types of Life-cycle costing.

6. How many Phases are in a Product Life Cycle?

7. Write any two negotiated prices disadvantages.

8. List the different forms Cost-based transfer prices.

9. What are two categories of cost drivers?

10. Write the factors that lead to the development of ABC.

SECTION B — (5 × 5 = 25 marks)

Answer ALL questions.

11. (a) Describe Strategic Cost Management and its necessity.

Or

(b) Explain the benefits of JIT Inventory Management.

12. (a) A company is organized into two divisions namely a and B. Division A produces three products, K, L and M. Data per unit are :

	K	L	M
Market price Rs	120	115	100
Variable costs Rs	84	60	70
Direct labour – hours	4	5	3
Maximum sales potential (units)	1,600	1,000	600

Division B had a demand for 600 units of product L for its use. If Division A cannot supply the requirement, Division B can buy a similar product from market at Rs.112 per unit.

Beta has just received a special order for which it requires components similar to the ones made by Alfa. Fully aware of the idle capacity of Alfa, Beta has asked Alfa to quote for manufacture and supply of 3,00,000 numbers of the components with a slight modification during final processing. Alfa and Beta agree that this will involve an extra variable cost of Rs. 5 per unit.

You are required to calculate,

(i) Calculate the transfer price which Alfa should quote to Beta to achieve its budgeted residual income.

(ii) Also indicate the circumstances in which the proposed transfer price may result in a sub optimal decision for the Company as a whole.

20. Production overheads of XYZ Manufacturers Pvt. Ltd. for 500 units of product X are

Machine oriented activity cost: Rs. 1,35,400

Material ordering overheads: Rs. 69,570 ,

Machine hours are 1.50 hrs per unit and No. of material orders are 6 per unit.

Raw material cost Rs. 300 per unit and labour cost Rs. 150 per unit. What is the Total cost of X per Unit?

Find the transfer price of 600 units of L for Division B, if the total direct labour hours available in Division A are restricted to 15,000?

Or

(b) A Company with two manufacturing divisions is organized on profit centre basis. Division A is the only source for the supply of a component that is used in Division B in the manufacture of a product KLIM. One such part is used in each unit of the product KLIM. As the demand for the product is not steady. Division B can obtain orders for increased quantities only by spending more on sales promotion and by reducing the selling prices. The Manager of Division B has accordingly prepared the following forecast of sales quantities and selling prices.

Sales units per unit day	1,000	2,000	3,000	4,000	5,000	6,000
Average selling price per unit of KLIM (Rs.)	5.25	3.98	3.30	2.78	2.40	2.01

The manufacturing cost of KLIM in Division B is Rs. 3,750 for first Rs. 1,000 units and Rs. 750 per 1,000 units in excess of 1,000 units.

14. (a) Statusline and Company is a manufacturer of a range of white goods. Cost structure of its different products is as follows:

Standard cost of the product is shown as under:

(Rs. per unit)

Particulars	Product P	Product Q	Product R
Direct Materials	25	20	20
Direct Labour at Rs.5/-hr	15	20	25
Production Overheads	15	20	25
	55	60	70
Quantity produced(units)	10,000	20,000	30,000

The production overhead is absorbed on the basis of direct labour hours. Statusline wishes to introduce activity- based costing (ABC) system and has identified four major cost pools for production overhead and their associated cost drivers. Information on these activity cost pools and their drivers is given as under:

Material Reordering Cost: Rs. 4,500

Material Handling Cost: Rs. 2,500

Material orders: 35

Material movements: 20

What is the Total Material cost under Activity based costing?

Or

(b) Write the reasons for adopting Activity Based Costing System.

SECTION C — (3 × 10 = 30 marks)

Answer any THREE questions.

16. Discuss the strategic frameworks for Value Chain Analysis.

17. Elucidate the procedure for implementation and evaluation of Kaizen costing

18. A manufacturing company, operating at 50% of its capacity, manufactures its products at Rs. 1500 per unit (60% variable) and sells its product at Rs. 2000 per unit. Due to competition, its

(iii) Product A needs no advertisement. Due to its nutritive value, it is readily consumed by diabetic patients of a hospital. Advertisement costs included in the total selling overheads is Rs.83,000.

(iv) Product B needs to be specially packed before being sold, so that it meets competition, Rs. 54,000 was the amount spent for the month in specially packing B, and this has been included in the total selling overhead cost given.

Required to present product wise profitability of statements under the conational system and the ABC System and accordingly rank the products.

15. (a) A company manufactures 500 units of product AX. The following details are available:

Material cost to manufacture: Rs. 1,50,000

Labour cost: Rs. 2,65,000

Activity cost pool	Cost driver	Cost associated with activity cost pool (Rs.)
Stores receiving	Purchase requisitions	1,48,000
Inspection/quality control	Number of production runs	4,47,000
Material handling and dispatch	orders executed	1,05,000
Production scheduling/machine set-ups	Number of set-ups	6,00,000

Further, the relevant information on the three products is given as under :

Particulars	Product P	Product Q	Product R
No. of purchase requisition	300	450	500
No. of production runs	750	1,050	1,200
No. of orders executed	180	270	300
No.of set-ups	360	390	450

Measure the following:

(i) Calculate the activity — based production cost of all the three products:

(ii) Comment on the differences between the original traditionally calculated costs and the activity based cost you calculated.

Or

(b) Biscuit Ltd, manufactures 3types of biscuits, A,B,C in a fully mechanized factory. The company has been following conventional method of costing and wishes to shift to Activity Based Costing System and Therefore, wishes to have the following data presented under both the systems for the month.

Inspection cost	Rs. p.m.	75,000
Machine-Repairs and Maintenance	Rs. p.m.	1,42,000
Dye cost	Rs. p.m.	10,250
Selling Overheads	Rs. p.m.	1,62,000

	A	B	C
Prime cost (Rs. per unit)	12	9	8
Selling price (Rs. per unit)	18	14	12
Gross production (units/production run)	2,520	2,810	3,010
No. of defective units/production run	20	10	10
Inspection :			
No. of hours / production run	3	4	4
Dye cost / production run(Rs)	200	300	250
No. of machine hours/production run	20	12	30
Sales- No. of units /month	25,000	56,000	27,000

Following additional information is given:

(i) No accumulation of inventory is considered. All goods units produced are sold.

(ii) All manufacturing and selling overheads are conventionally allocated on the basis of units sold.